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Pennsylvania
American Water

Paul T. Diskin
Manager
Rates & Regulation

December 2, 2004

Timothy C. Phillips
Senior Counsel
Office of the Tennessee Attorney General
425 Fifth Avenue North
Nashville, TN 37202-0207

**RE: Interrogatories and Requests for Production of Documents by the Attorney
General (Second Set) To Tennessee-American Water Company
Rate Case No. 04-00288**

Dear Mr. Phillips

Enclosed are 3 copies of the following in regards to the above Interrogatories for
Tennessee American's petition to increase rates which was filed on September 10,
2004:

First Set: Additional Response to Question 6
First Set: Revised answer to Question 27
Second Set: Revised attachment to Question 42 (Original stated Tennessee
American, a "Delaware Corporation", when in fact Tennessee
American is a "Tennessee Corporation")
Second Set: Question 41
Second Set: Question 43

Should you have any questions, please do not hesitate to contact me.

Sincerely,

Paul T. Diskin

Enclosures

cc: M. Miller/w enclosure
D. Grimes w/enclosures
S. Dillon w/enclosures
R. Nelson w/enclosure

Pennsylvania American Water

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RWE GROUP

**Interrogatories and Requests for Production
Of Documents by the
Attorney General (First Set)
To Tennessee-American Water Company
Rate Case No. 04-00288**

ADDITIONAL RESPONSE

- 6 Q. PROVIDE A SUMMARY OF "TDOT REIMBURSABLE PROJECTS" DETAILING THE TOTAL COST OF THE PROJECT, THE COST REIMBURSABLE BY THE TDOT, AND THE BALANCE TO BE PAID BY RATEPAYERS.

Response: The costs associated with non-reimbursable TDOT projects is shown below. This reflects the cost of projects, which are either partially reimbursable or non-reimbursable. The Company will provide a list of projects by name, including costs to date, and total projected project costs. TDOT projects are ongoing and new projects are added each year.

Investment Project Number	Task Number	Description	Estimated Cost	Starting Date	Completion Date
26020205		TDOT Relocations - Chattanooga			
	50025359	Install 3,160 feet 12" DI Signal Mountain Blvd	\$550,056	1/20/2003	12/1/2004
	50025360	Install 750 feet 8" DI Signal Mountain Blvd	\$89,796	1/20/2003	12/1/2004
	50025361	Relocate 11 Fire Hydrants Signal Mountain Blvd	\$49,239	1/20/2003	12/1/2004
	50042125	Ringgold Road Utility Relocation	\$125,291	11/7/2003	7/1/2005
	50053218	Ashland Terrace - Engineering Design	\$8,000	3/5/2004	12/15/2005
	50053219	Manufacturers Road	\$36,610	3/5/2004	3/1/2005
	50062437	Relocate 12" Main Bonny Oaks Drive	\$88,576	8/3/2004	10/15/2004
	50062438	Relocate 3 Fire Hydrants Bonny Oaks Drive	\$5,513	8/3/2004	10/15/2004
	50063272	Relocate 240 feet 8" Main Bonny Oaks Drive	\$31,203	8/19/2004	10/15/2004
		Total	\$984,284		

The dollars detailed above are the Company investment dollars only. Any amount contributed by TDOT has been subtracted from the total project cost leaving Company investment dollars only.

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REVISED

27 Q PROVIDE THE TOTAL MANAGEMENT FEES SUBJECT TO ALLOCATION FOR THE TWELVE MONTHS ENDED MARCH 31, 2003, FOR THE TWELVE MONTHS ENDED MARCH 31, 2004, AND THE ATTRITION YEAR ENDED DECEMBER 31, 2005 AND THE SOURCES OF THE MANAGEMENT FEE

Response:

A The total American Water management fees subject to allocation during the twelve months ended March 31, 2003 was \$105,487,471. The total American Water management fees subject to allocation during the twelve months ended March 31, 2004 was \$116,179,170. If you then increased the March 2004 number of \$116,179,170 by an inflationary amount of 3.3%, you would arrive at an amount around \$120,000,000 for the attrition period. The sources of the management fees (costs by functions) were provided in the response to TRA Set 1, question 41.

REVISED ATTACHMENT

TO QUESTION 42

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PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$10,000,000

January 1, 2005

FOR VALUE RECEIVED, Tennessee American Water Company, a Tennessee corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of Ten Million dollars (\$10,000,000.00), (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender

hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefore shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Tennessee American Water Company

By: Michael A. Miller
Michael A Miller, Treasurer

**Interrogatories and Requests for Production
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- 41 Q. With regard to the General Mortgage Bonds displayed in Exhibit No 3, Schedule 2, page 1 of 2, the "embedded Cost of Long Term Debt," for each bond identify:
- A) The issuer,
 - B) The holder,
 - i) Indicating if the holder is RWE or RWE Thames;
 - ii) If the holder is not RWE or RWE Thames, indicate if the holder is any subsidiary of RWE such as the American Water Capital Corporation, for example, and
 - iii) If the holder is neither i) or ii) then indicate that the holder is not a part of RWE
 - C) Any covenants which
 - i) Identify conditions limiting or preventing the declaration or payment of dividends by Tennessee American to its parent RWE or any RWE subsidiary, and
 - ii) Identify conditions limiting or preventing the declaration or payment of dividends by RWE to its stockholders.
 - D) Regarding the 4 25% series and the 6.75% series, indicate if the bond was placed privately or will be placed privately, was offered publicly or will be offered publicly and provide any prospectus that accompanied the private placement or the public offering.

RESPONSE:

- A
 - a Please refer to table below.
 - b Please refer to table below
 - c Part c does not apply to the first three series since they were issued prior to being acquired by RWE. No covenants exist for the tow unsecured debt issuances. It has been the Companies historic practice to pay out 75% of its dividends
 - d. The above-mentioned issuances were placed privately through American Water Capital Corp and are unsecured notes and not general mortgage bonds.

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<u>Debt Issue Type,</u> <u>Coupon Rate</u>	<u>Principal</u> <u>Amount</u>	<u>Issuer</u>	<u>Holder</u>
General Mortgage Bonds			
9 25% Series	2,500,000	Tennessee American Water	Not a part of RWE
7 84% Series	5,700,000	Tennessee American Water	Not a part of RWE
6 50% Series	6,500,000	Tennessee American Water	Not a part of RWE
6.87% Series	5,100,000	Tennessee American Water	American Water Capital Corp
4 75% Series	19,000,000	Tennessee American Water	American Water Capital Corp
6 76% Series (proposed)	3,200,000	Scheduled for June 2005	Scheduled for June 2005

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- 43 Q. PROVIDE COPIES OF ANY CORRESPONDENCE, NOTES, E-MAILS, REPORTS OR OTHER DOCUMENTS FROM RWE OR RWE THAMES WATER TO AMERICAN WATER OR TENNESSEE AMERICAN WHERE RWE OR RWE THAMES INFORMS AMERICAN WATER OR TENNESSEE AMERICAN THAT RWE THAMES MUST ACHIEVE AN OVERAL RETURN ON CAPITAL OF 8 PERCENT ANNUALLY.

RESPONSE:

- A. Petitioner objects to this request on the grounds that it is overly broad, unduly burdensome, and not reasonably calculated to lead to the discovery of admissible evidence. Without waiving these objections, Petitioner states that the return on capital employed target set for the RWE Thames Water division of the company is 8%. Capital employed includes equity capital as well as external capital. For the RWE Thames Water division, of which American Water is a part, this would include capital employed in both regulated and unregulated enterprises.